
HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH,
STATE OF LOUISIANA
(d/b/a TERREBONNE GENERAL MEDICAL CENTER)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS

MARCH 31, 2013

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date OCT 30 2013



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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Hospital Service District No. 1 of Terrebonne Parish,
State of Louisiana
(d/b/a Terrebonne General Medical Center)

Report on the Financial Statements

We have audited the accompanying financial statements and related notes to the financial statements of the Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (d/b/a Terrebonne General Medical Center) (the Hospital) as of and for the years ended March 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Hospital as of March 31, 2013 and 2012, and the changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis presented on pages 3 through 17, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with accounting standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2013, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 27, 2013

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Management's Discussion and Analysis

March 31, 2013

This section of the Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (d/b/a Terrebonne General Medical Center) (the Hospital), annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended on March 31, 2013. Please read it in conjunction with the financial statements in this report.

Required Financial Statements

The Basic Financial Statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The Statements of Net Position include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the reporting period's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. This statement measures changes in the Hospital's operations over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its net patient service revenue and other revenue sources. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing, and financing activities and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the Hospital

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Hospital's activities. These two statements report the net position of the Hospital and changes in them. Increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Management's Discussion and Analysis

Financial Highlights for the Year Ended March 31, 2013

- The Hospital's assets and deferred outflows increased by approximately \$4,066,000 or 1%.
- During the year, the Hospital's total operating revenues increased by \$4,155,000 or 2% to \$177,753,000 from prior year while operating expenses increased \$5,249,000, or 3%, to \$172,207,000. The Hospital has income from operations of \$5,546,000, which is 3.1% of total operating revenue and represents a decrease from the \$6,640,000 prior year income from operations. Net revenue increased due to increased activity related to the Cancer Program and an increase in other revenue from governmental funding for meaningful use and grants from supplemental Medicaid payments. Expenses increased as well due to increased employee health insurance expense, the expense associated with the newly opened Cancer Building and the expense associated with the electronic medical record initiative.
- During fiscal year 2013, the Hospital qualified to receive grant funding from eligible supplemental Medicaid payments. The amount of this funding in total operating revenue for the year is \$4,429,000, an increase of 62% from prior year.
- The Hospital experienced an increase in net revenue due to the addition of medical oncology services during 2013 and 2012.
- Investment income decreased over prior year by \$4,456,000 due to an unrealized loss on investments of \$870,000 and lower interest rates. In the prior year, investments generated a \$2,890,000 gain from market changes.
- During the fiscal year, the Hospital made significant capital acquisitions totaling approximately \$16,388,000 including the following:
 - Continuation of various Information Technology Projects including automated electronic medical record technology and its support systems
 - Upgrade of the infrastructure of the Facility
 - Various Renovation projects of existing buildings
 - Purchase of diagnostic equipment due to improving technology

The source of the funding for these projects was derived from operations and drawing on investments as necessary.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Management's Discussion and Analysis

Net Position

A summary of the Hospital's Statements of Net Position are presented in Table 1 below.

Condensed Balance Sheets

TABLE 1

	March 31		Dollar	Percentage
	2013	2012	Change	Change
Total current assets	\$42,975	\$42,631	\$344	1%
Capital assets	149,835	150,437	(602)	0%
Other assets, including board designated investments	161,887	157,563	4,324	3%
Deferred outflows of resources	-	-	-	0%
Total assets and deferred outflows	<u>\$354,697</u>	<u>\$350,631</u>	<u>\$4,066</u>	1%
Current liabilities	\$21,465	\$21,422	\$43	0%
Long-term debt outstanding and other long-term liabilities	53,836	55,777	(1,941)	-3%
Deferred inflows of resources	-	-	-	0%
Total liabilities and deferred inflows	<u>75,301</u>	<u>77,199</u>	<u>(1,898)</u>	-2%
Invested in capital assets, net of related debt	94,655	93,432	1,223	1%
Restricted net position	3,118	3,090	28	1%
Unrestricted net position	<u>181,623</u>	<u>176,910</u>	<u>4,713</u>	3%
Total liabilities and net position	<u>\$354,697</u>	<u>\$350,631</u>	<u>\$4,066</u>	1%

As can be seen in Table 1, total assets and deferred outflows increased by \$4,066,000 to \$354,697,000 at March 31, 2013, up from \$350,631,000 at March 31, 2012. The change in total assets and deferred outflows results primarily from the increase in investments added during the year.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Management's Discussion and Analysis

Summary of Revenues and Expenses

The following table presents a summary of the Hospital's revenues and expenses for each of the years ended March 31, 2013 and 2012.

**TABLE 2
Condensed Statements of Revenues and Expenses**

	March 31 2013	2012	Dollar Change	Percentage Change
Net patient service revenue	\$166,290	\$164,990	\$1,300	1%
Other revenue, net	11,463	8,608	2,855	33%
Total operating revenue	177,753	173,598	4,155	2%
Salaries and employee benefits	\$82,910	\$80,437	\$2,473	3%
Supplies and materials	40,426	40,223	203	1%
Purchased services	19,535	18,763	772	4%
Professional fees	4,951	4,597	354	8%
Other operating expenses	7,395	6,854	541	8%
Depreciation	16,990	16,084	906	6%
Total operating expense	\$172,207	\$166,958	\$5,249	3%
Income from operations	\$5,546	\$6,640	(\$1,094)	-16%
Investment income including net unrealized losses on investments	3,535	7,991	(4,456)	-56%
Interest expense and amortization	(2,528)	(2,330)	(198)	8%
Other expenses	(589)	(448)	(141)	31%
Total nonoperating revenues	418	5,213	(\$4,795)	-92%
Change in net position	\$5,964	\$11,853	(\$5,889)	
Net position:				
Beginning of period	273,432	261,579		
End of period	\$279,396	\$273,432		

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Management's Discussion and Analysis

Sources of Revenue

Operating Revenue

During fiscal year 2013, the Hospital derived the majority of its operating revenue from patient revenues. Patient revenues include revenues from the Medicare and Medicaid programs and patients, or their third-party insurers, who pay for care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party insurers is based upon established contracts. The difference between the covered charges and the expected payment is recognized as a contractual allowance.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended March 31, 2013 and 2012.

**TABLE 3
Payor Mix**

	<u>2013</u>	<u>2012</u>
Medicare	49%	46%
Medicare Advantage Plan	6%	6%
Managed Care	28%	30%
Medicaid	13%	13%
Self-pay and other	4%	5%
Total patient revenues	<u>100%</u>	<u>100%</u>

Other Operating Revenue

The Hospital also generated other operating income of \$11,463,000 in 2013 and \$8,608,000 in 2012. Of this amount, \$4,429,000 in 2013 and \$2,739,000 in 2012 relates to grants from supplemental Medicaid payments. Remaining income does not relate to patient revenues and consists primarily of rental and retail income, reference lab income, cafeteria income, and other departmental income. Rental, retail, reference lab, cafeteria income account for \$4,777,000 and \$4,624,000 in 2013 and 2012, respectively.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Management's Discussion and Analysis

Non-operating Income

The Hospital holds designated and restricted funds in its statements of net position that are invested primarily in money market funds and securities issued by the U.S. Treasury and its agencies and other federal agencies. These investments earned \$4,405,000 and \$5,101,000 during fiscal year 2013 and 2012, respectively. An unrealized gain (loss) on investments decreased investments by \$870,000 in 2013 and increased investments by \$2,890,000 in 2012.

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenues, Expenses, and Changes in Net Position between 2013 and 2012:

Overall activity at the Hospital, as measured by patient discharges, decreased by 1% to 9,864 in 2013 compared to 9,913 in 2012. Patient days decreased by 2% over prior year from 51,596 in 2012 to 50,679 in 2013. As a result, the average length of stay for the Hospital decreased by 4% with the stay length at 5.1 days in 2013 compared to 5.3 days in 2012.

Outpatient revenue increased in fiscal year 2013 due to an increase in emergency volume of 8% and a significant increase in the cancer product line. As a result of increased gross revenue, net patient service revenue increased \$1,300,000, or 1% in 2013. Contractual allowances, excluding bad debt, decreased to 67.6% of charges in 2013 from 68.1% in 2012.

Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of \$2,811,000 were forgone during 2013 compared to \$2,152,000 in 2012, or a 30% increase over the prior fiscal year. Provision for bad debts decreased by \$265,000, or 2.0% compared to the prior year.

Employee wages and compensation increased slightly by \$978,000 over the prior year due to an increase in FTEs from 1,272 in 2012 to 1,282 in 2013. Employee benefits increased due to increased healthcare costs for employees. Salaries and benefits were 46.6% and 46.3% of total operating revenue in 2013 and 2012, respectively.

Professional fees increased over the prior year by 8% or \$354,000 as a result of the new contracts initiated to implement both the cancer program and physician initiatives. The cost of supplies and materials increased by \$203,000, or 1% due to increased volume in product lines. Purchased services increased during the year by \$772,000 due to increases in other purchased services, information technology access fees and repairs for the year. Depreciation and amortization expense increased by \$906,000 or 6% due to the Cancer Center being open for the entire year and acquisition of additional information technology equipment. Total operating expenses increased by \$5,249,000, or 3%, for the year ended March 31, 2013.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
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Management's Discussion and Analysis

Non-operating revenue consists of interest earnings on funds designated by the Board of Commissioners and funds held by trustee under bond resolution. The changes in fair value of these investments is also included in this amount. Non-operating revenue decreased over the prior year due to a decline in the market value than compared to the prior year. Unrealized losses increased from the prior year by \$3,760,000.

Capital Assets

During fiscal year 2013, the Hospital invested in a broad range of capital assets included in Table 4 below.

**TABLE 4
Capital Assets**

	March 31 2013	2012	Dollar Change	Percentage Change
Land and land improvements	\$22,091	\$22,086	\$5	0%
Building	172,018	166,164	5,854	4%
Equipment	162,666	156,842	5,824	4%
Subtotal	356,775	345,092	11,683	3%
Less accumulated depreciation	217,793	201,199	16,594	8%
Construction-in progress	10,853	6,544	4,309	66%
Net capital assets	<u>\$149,835</u>	<u>\$150,437</u>	<u>(\$602)</u>	0%

Net capital assets have decreased due to depreciation of current capital assets and some equipment retirements; however the Hospital continues to enhance existing facilities and invest in information technology and other facility initiatives. During the fiscal year 2013, the hospital spent \$5,427,000 of its 2013 capital budget and \$10,963,000 on master facility plan spending. The Hospital also has a strategic plan that incorporates a master facility plan for future expansion. The timing and priorities of the plan are available as a separate document.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
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Management's Discussion and Analysis

In Table 5, the Hospital's fiscal year 2014 capital budget projects spending up to \$6,688,000 for capital projects, of which 65% is for replacement or regulatory/maintenance items. These projects will be financed from operations. The master facility spending plan will be funded from operations and designated investments. More information about the Hospital's capital assets is presented in the notes to basic financial statements.

TABLE 5
Fiscal Year 2014 Capital Budget
(In Thousands)

Master Facility Plan	\$19,112
Replacement equipment	4,331
Contingency	1,410
New Technology	191
Other	756
Total	<u>\$25,800</u>

Long-Term Debt

At March 31, 2013, the Hospital had \$54,490,000 in short-term and long-term debt, plus a premium of \$690,000 for a total debt figure of \$55,180,000. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Total long term debt outstanding represents 16% of the Hospital's total assets and deferred outflows at March 31, 2013.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Management's Discussion and Analysis

Financial Highlights for the Year Ended March 31, 2012

- The Hospital's assets increased by approximately \$12,234,000 or 4%.
- During the year, the Hospital's total operating revenues increased by \$7,724,000 to \$173,598,000 from prior year while operating expenses increased \$7,967,000, or 5%, to \$166,958,000. The Hospital has income from operations of \$6,640,000, which is 3.8% of total operating revenue and represents a slight decrease from the \$6,883,000 prior year income from operations. Net revenue increased due to an increase in physician practice activity and increased activity related to the Cancer Program. Expenses increased as well due to establishing practice infrastructure and the expense associated with the newly opened Cancer Building.
- During fiscal year 2012, the hospital qualified to receive grant funding from eligible supplemental Medicaid payments. The amount of this funding in total operating revenue for the year is \$2,739,000.
- The Hospital experienced an increase in net revenue due to the addition of medical oncology services during 2012 and 2011.
- Investment income increased over prior year by \$2,723,000 due to an unrealized gain on investments of \$2,890,000. In the prior year, investments generated a \$143,000 loss from market changes.
- During the fiscal year, the Hospital made significant capital acquisitions totaling \$22,455,000 including the following:
 - Completion and opening of the new Cancer Center building
 - Continuation of various Information Technology Projects including automated electronic medical record technology and its support systems
 - Upgrade of the infrastructure of the Facility
 - Various Renovation projects of existing buildings
 - Purchase of PET and other diagnostic equipment due to improving technology

The source of the funding for these projects was derived from operations and drawing on investments as necessary.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Management's Discussion and Analysis

Net Position

A summary of the Hospital's Balance Sheets are presented in Table 1 below.

Condensed Balance Sheets

TABLE 1

	March 31		Dollar	Percentage
	2012	2011	Change	Change
Total current assets	\$42,631	\$41,783	\$848	2%
Capital assets	150,437	144,083	6,354	4%
Other assets, including board designated investments	157,563	152,531	5,032	3%
Total assets	<u>\$350,631</u>	<u>\$338,397</u>	<u>\$12,234</u>	4%
Current liabilities	\$21,422	\$19,167	\$2,255	12%
Long-term debt outstanding and other long-term liabilities	55,777	57,651	(1,874)	-3%
Total liabilities	77,199	76,818	381	0%
Invested in capital asset, net of related debt	93,432	86,218	7,214	8%
Restricted net position	3,090	2,018	1,072	53%
Unrestricted net position	176,910	173,343	3,567	2%
Total liabilities and net position	<u>\$350,631</u>	<u>\$338,397</u>	<u>\$12,234</u>	4%

As can be seen in Table 1, total assets increased by \$12,234,000 to \$350,631,000 at March 31, 2012, up from \$338,397,000 at March 31, 2011. The change in total assets results primarily from the increase in capital assets and increased investments added during the year.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Management's Discussion and Analysis

Summary of Revenues and Expenses

The following table presents a summary of the Hospital's revenues and expenses for each of the years ended March 31, 2012 and 2011.

**TABLE 2
Condensed Statements of Revenues and Expenses**

	March 31 2012	2011	Dollar Change	Percentage Change
Net patient service revenue	\$164,990	\$160,191	\$4,799	3%
Other revenue, net	8,608	5,683	2,925	51%
Total operating revenue	<u>\$173,598</u>	<u>\$165,874</u>	<u>\$7,724</u>	5%
Salaries and employee benefits	\$80,437	\$77,636	\$2,801	4%
Supplies and materials	40,223	39,262	961	2%
Purchased services	18,763	16,981	1,782	10%
Professional fees	4,597	3,288	1,309	40%
Other operating expenses	6,854	7,076	(222)	-3%
Depreciation	16,084	14,748	1,336	9%
Total operating expense	<u>\$166,958</u>	<u>\$158,991</u>	<u>\$7,967</u>	5%
Income from operations	\$6,640	\$6,883	(\$243)	-4%
Investment income including net unrealized losses on investments	7,991	5,268	2,723	52%
Interest expense and amortization	(2,330)	(2,726)	396	-15%
Other expenses	(448)	(454)	6	-1%
Loss from Bond refinancing	-	(527)	527	100%
Total nonoperating revenues	<u>5,213</u>	<u>1,561</u>	<u>\$3,652</u>	234%
Change in net assets	\$11,853	\$8,444	\$3,409	
Net position:				
Beginning of period	261,579	253,135		
End of period	<u>\$273,432</u>	<u>\$261,579</u>		

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Management's Discussion and Analysis

Sources of Revenue

Operating Revenue

During fiscal year 2012, the Hospital derived the majority of its operating revenue from patient revenues. Patient revenues include revenues from the Medicare and Medicaid programs and patients, or their third-party insurers, who pay for care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party insurers is based upon established contracts. The difference between the covered charges and the expected payment is recognized as a contractual allowance.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended March 31, 2012 and 2011.

**TABLE 3
Payor Mix**

	<u>2012</u>	<u>2011</u>
Medicare	46%	45%
Medicare Advantage Plan	6%	7%
Managed Care	30%	31%
Medicaid	13%	13%
Self-pay and other	5%	4%
Total patient revenues	<u>100%</u>	<u>100%</u>

Other Operating Revenue

The Hospital also generated other operating income of \$8,608,000 in 2012 and \$5,683,000 in 2011. Of this amount, \$2,739,000 relates to grants from supplemental Medicaid payments. Remaining income does not relate to patient revenues and consists primarily of rental and retail income, reference lab income, cafeteria income, and other departmental income. Rental, retail, reference lab, cafeteria income account for \$4,624,000 and \$4,392,000 in 2012 and 2011, respectively.

Non-operating Income

The Hospital holds designated and restricted funds in its statements of net position that are invested primarily in money market funds and securities issued by the U.S. Treasury and its agencies and other federal agencies. These investments earned \$5,101,000 and \$5,411,000 during fiscal year 2012 and 2011, respectively. An unrealized gain on investments increased investments by \$2,890,000 in 2012 and decreased investments by \$143,000 in 2011.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Management's Discussion and Analysis

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenues, Expenses, and Changes in Net Position between 2012 and 2011:

Overall activity at the Hospital, as measured by patient discharges, decreased by 3% to 9,724 in 2012 compared to 10,018 in 2011. Patient days increased by 3% over prior year from 50,060 in 2011 to 51,596 in 2012. As a result, the average length of stay for the Hospital increased by 6% with the stay length at 5.3 days in 2012 compared to 5.0 days in 2011.

Outpatient revenue increased in fiscal year 2012 due to an increase in emergency volume of 6% and a significant increase in the cancer product line. Diagnostic volume increased and the hospital added a PET Scan product line during the year. As a result of increased gross revenue, net patient service revenue increased \$4,799,000, or 3% in 2012. Contractual allowances, excluding bad debt, increased to 68.1% of charges in 2012 from 66.7% in 2011.

Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of \$2,152,000 were forgone during 2012 compared to \$2,472,000 in 2011, or a 13% decrease over the prior fiscal year. Provision for bad debts increased by \$435,000, or 3.5% compared to the prior year. These increases are due to general economic conditions and increasing emergency usage for self pay patients.

Employee wages and compensation increased slightly by \$1,909,000 over the prior year due to an increase in FTEs from 1,223 in 2011 to 1,272 in 2012. Employee benefits increased due to increased healthcare costs for employees. Salaries and benefits were 46.3% and 46.8% of total operating revenue in 2012 and 2011, respectively.

Professional fees increased over the prior year by 40% or \$1,309,000 as a result of the new contracts initiated to implement both the cancer program and physician initiatives. The cost of supplies and materials increased by \$961,000, or 2% due to increased volume in product lines. Purchased services increased during the year by \$1,782,000 due to increases in other purchased services, collection fees and repairs for the year. Depreciation expense increased by \$1,336,000 or 9% due to the opening of the new Cancer Building during the year. Total operating expenses increased by \$7,967,000, or 5%, for the year ended March 31, 2012.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Management's Discussion and Analysis

Capital Assets

During fiscal year 2012, the Hospital invested in a broad range of capital assets included in Table 4 below.

**TABLE 4
Capital Assets**

	March 31 2012	2011	Dollar Change	Percentage Change
Land and land improvements	\$22,086	\$22,063	\$23	0%
Building and fixed equipment	166,164	141,301	24,863	18%
Equipment	156,842	146,180	10,662	7%
Subtotal	345,092	309,544	35,548	11%
Less accumulated depreciation	201,199	185,140	16,059	9%
Construction-in progress	6,544	19,679	(13,135)	-67%
Net capital assets	<u>\$150,437</u>	<u>\$144,083</u>	<u>\$6,354</u>	4%

Net capital assets have increased due to capital spending offset by depreciation of current capital assets and some equipment retirements. The Hospital continues to expand and enhance existing facilities and invest in information technology and other facility initiatives. During the fiscal year 2012, the hospital spent \$5,188,000 of its 2012 capital budget and \$17,252,000 on master facility plan spending. The Hospital also has a strategic plan that incorporates a master facility plan for future expansion. The timing and priorities of the plan are available as a separate document.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Management's Discussion and Analysis

In Table 5, the Hospital's fiscal year 2013 capital budget projects spending up to \$6,998,000 for capital projects, of which 58% is for replacement or regulatory/maintenance items. These projects will be financed from operations. This budget below does not include the master facility spending plan that will be funded from operations and designated investments. More information about the Hospital's capital assets is presented in the notes to basic financial statements.

TABLE 5
Fiscal Year 2013 Capital Budget
(In Thousands)

Replacement equipment	\$4,092
Contingency	1,315
New Technology	683
Other	908
Total	<u><u>\$6,998</u></u>

Long-Term Debt and Bond Refunding

At 2012, the Hospital had \$56,230,000 in short-term and long-term debt, plus a premium of \$775,000 for a total debt figure of \$57,005,000. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Total long term debt outstanding represents 16% of the Hospital's total assets at March 31, 2012.

Contacting the Hospital's Financial Management

This financial report is designed to provide a general overview of the Hospital's finances for those with an interest in the Hospital's financial position and operations. If you have questions about this report or need additional financial information, contact the Hospital's Chief Financial Officer, Dean Verret, 8166 Main Street, Houma LA 70360 - (985) 873-4141.

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA
(d/b/a TERREBONNE GENERAL MEDICAL CENTER)

STATEMENTS OF NET POSITION
MARCH 31, 2013 AND 2012

ASSETS AND DEFERRED OUTFLOWS

(in thousands)

	<u>2013</u>	<u>2012</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 4,391	\$ 4,652
Patient accounts receivable, net of allowances for uncollectible accounts of \$22,234 in 2013 and \$19,811 in 2012	14,400	15,255
Estimated net receivables under government programs	13,262	10,456
Inventories	3,548	3,722
Prepaid expenses	3,255	3,609
Other current assets	1,001	1,847
Funds held by trustee under bond resolution	3,118	3,090
Total current assets	<u>42,975</u>	<u>42,631</u>
<u>CAPITAL ASSETS</u>		
Land and land improvements	22,091	22,086
Buildings	172,018	166,164
Equipment	162,666	156,842
Construction-in-progress	10,853	6,544
	<u>367,628</u>	<u>351,636</u>
Less. accumulated depreciation and amortization	217,793	201,199
Net capital assets	<u>149,835</u>	<u>150,437</u>
<u>INVESTMENTS AND ACCRUED INTEREST</u>		
Funds designated by board of commissioners for plant replacement and expansion, including accrued interest of (\$263) in 2013 and \$146 in 2012	158,768	154,132
Total investments and accrued interest	<u>158,768</u>	<u>154,132</u>
<u>OTHER ASSETS</u>		
Other assets	3,119	3,431
Total other assets	<u>3,119</u>	<u>3,431</u>
Total assets	<u>354,697</u>	<u>350,631</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 354,697</u>	<u>\$ 350,631</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

(in thousands)

	<u>2013</u>	<u>2012</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued liabilities	\$ 9,790	\$ 10,292
Salaries and employee benefit liabilities	5,107	4,872
Accrued interest payable	1,323	1,350
Self-insurance reserves	3,450	3,168
Current maturities of long-term debt	<u>1,795</u>	<u>1,740</u>
Total current liabilities	<u>21,465</u>	<u>21,422</u>
<u>LONG-TERM LIABILITIES</u>		
Hospital revenue bonds, less current portion (net of premium and deferred amounts of \$690 in 2013 and \$775 in 2012)	53,385	55,265
Other accrued liabilities, less current portion	<u>451</u>	<u>512</u>
Total long-term debt	<u>53,836</u>	<u>55,777</u>
Total liabilities	<u>75,301</u>	<u>77,199</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows	<u>75,301</u>	<u>77,199</u>
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	94,655	93,432
Restricted for debt service	3,118	3,090
Unrestricted	<u>181,623</u>	<u>176,910</u>
Total net position	<u>279,396</u>	<u>273,432</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 354,697</u>	<u>\$ 350,631</u>

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA
(d/b/a TERREBONNE GENERAL MEDICAL CENTER)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED MARCH 31, 2013 AND 2012

(in thousands)

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUES</u>		
Net patient service revenue	\$ 166,290	\$ 164,990
Other operating revenue, net	<u>11,463</u>	<u>8,608</u>
Total operating revenues	<u>177,753</u>	<u>173,598</u>
<u>OPERATING EXPENSES</u>		
Salaries and employee benefits	82,910	80,437
Supplies and materials	40,426	40,223
Purchased services	19,535	18,763
Professional fees	4,951	4,597
Other operating expenses	7,395	6,854
Depreciation and amortization	<u>16,990</u>	<u>16,084</u>
Total operating expenses	<u>172,207</u>	<u>166,958</u>
INCOME FROM OPERATIONS	<u>5,546</u>	<u>6,640</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Investment revenue including unrealized gains (losses)		
of (\$870) in 2013 and \$2,890 in 2012	3,535	7,991
Interest expense	(2,528)	(2,330)
Other expenses	<u>(589)</u>	<u>(448)</u>
Total nonoperating revenues (expenses)	<u>418</u>	<u>5,213</u>
CHANGE IN NET POSITION	5,964	11,853
Net position - beginning of year	<u>273,432</u>	<u>261,579</u>
NET POSITION - END OF YEAR	<u>\$ 279,396</u>	<u>\$ 273,432</u>

The accompanying notes are an integral part of these statements.

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA
(d/b/a TERREBONNE GENERAL MEDICAL CENTER)

STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2013 AND 2012

(in thousands)

	<u>2013</u>	<u>2012</u>
<u>Operating activities</u>		
Cash collected from patients and third-party payors	\$ 166,950	\$ 164,838
Cash payments to employees and for employee-related costs	(82,676)	(80,383)
Cash payments for operating expenses	(62,244)	(62,013)
Net cash provided by operating activities	<u>22,030</u>	<u>22,442</u>
<u>Capital and related financing activities</u>		
Purchases of capital assets	(16,388)	(22,455)
Principal payments on bonds	(1,831)	(876)
Bond issuance cost paid/refunds	-	30
Interest payments on debt	(2,554)	(2,202)
Net cash used in capital and related financing activities	<u>(20,773)</u>	<u>(25,503)</u>
<u>Investing activities</u>		
Interest received on investments	3,518	6,527
Purchases of investments	(91,468)	(111,068)
Proceeds on sales or maturity of investments	86,432	105,893
Net cash provided by (used in) investing activities	<u>(1,518)</u>	<u>1,352</u>
Net change in cash and cash equivalents	(261)	(1,709)
Cash and cash equivalents at beginning of year	4,652	6,361
Cash and cash equivalents at end of year	<u>\$ 4,391</u>	<u>\$ 4,652</u>

The accompanying notes are an integral part of these statements.

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA
(d/b/a TERREBONNE GENERAL MEDICAL CENTER)

STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED MARCH 31, 2013 AND 2012

(in thousands)

	<u>2013</u>	<u>2012</u>
<u>Reconciliation of operating income to net cash provided by operating activities</u>		
Income from operations	\$ 5,546	\$ 6,640
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	16,990	16,084
Provision for bad debts	12,714	12,979
Loss on sale of equipment	-	15
Changes in operating assets and liabilities:		
Patient accounts receivable	(11,858)	(14,110)
Government program receivables	(2,805)	980
Other assets	1,400	(1,360)
Accounts payable and accrued liabilities	43	1,214
Net cash provided by operating activities	<u>\$ 22,030</u>	<u>\$ 22,442</u>

The accompanying notes are an integral part of these statements.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies

Organization

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana, a political subdivision of the state of Louisiana, owns and operates Terrebonne General Medical Center (the Hospital). The Hospital is a 321-bed acute care facility providing comprehensive medical services in southeast Louisiana.

Basis of Accounting

The Hospital uses the accrual basis of accounting for proprietary funds. The statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent they have been made authoritative under Governmental Accounting Standards Statement 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds and highly liquid investments with maturities of three months or less when purchased, excluding amounts whose use is limited by board of commissioners' designation or under trust agreements.

Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market.

Investments

Investments are stated at fair value. Investments and the associated accrued interest are classified as noncurrent due to these funds being designated by the board of commissioners for funded reserves and expenditures in the acquisition or construction of capital assets. Investment revenue is reported as nonoperating revenues.

Other Assets

Other assets include various investments held in connection with a former employee's retirement plan, investment in purchasing group, and certificates of deposit that are pledged as security under various insurance plans.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Capital Assets

Property is recorded at acquisition cost. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets, which range from 5 to 39 years. Depreciation expense was approximately \$16,990,000 and \$16,084,000 for the years ended March 31, 2013 and 2012, respectively.

Net Position

The Hospital has implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective fiscal year 2013. This standard provides guidance for reporting the financial statement elements of deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the government's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period.

Because deferred outflows and deferred inflows are, by definition, neither assets nor liabilities, the statement of net assets title is now referred to as the statement of net position. The statement of net position reports net position as the difference between all other elements in a statement of net position and is displayed in three components—net investment in capital assets, restricted net position (distinguishing between major categories of restrictions), and unrestricted net position.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of borrowings for capital asset acquisition, construction, or improvement of those assets, increased by deferred outflows of resources attributable to capital asset acquisition, construction or improvement, and deferred inflows of resources attributable to either capital asset acquisition, construction, or improvement or to capital asset related debt. Capital-related debt or deferred inflows equal to unspent capital asset related debt proceeds or deferred inflows of resources is included in calculating either restricted or unrestricted net position, depending upon whether the unspent amounts are restricted.

Restricted net position is when there are limitations imposed on their use by external parties such as creditors, grantors, laws or regulations of other governments. Restricted net position consists of restricted assets less liabilities related to restricted assets less deferred inflows related to restricted assets. Liabilities and deferred inflows related to restricted assets include liabilities and deferred inflows to be liquidated with restricted assets and arising from the same resource flow that results in restricted assets. When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use restricted resources first, then unrestricted resources as they are needed.

Unrestricted net position is the balance (deficit) of all other elements in a statement of net position remaining after net investment in capital assets and restricted net position.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Revenue and Expenses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are included in operating income; all peripheral transactions are reported as nonoperating revenues and expenses. Other operating income for 2013 and 2012 includes approximately \$4,429,000 and \$2,739,000, respectively, which relates to grants from supplemental Medicaid payments. Operating expenses are all expenses incurred to provide health services, other than financing costs.

Net Patient Service Revenue

The Hospital has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for the hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Accounts Receivable

The Hospital provides credit in the normal course of operations to patients located primarily in southeast Louisiana and to insurance companies conducting operations in this area.

The Hospital maintains allowances for contractual adjustments and doubtful accounts based on management's assessment of collectability, current economic conditions, and prior experience. The Hospital determines if patient accounts receivable are past-due based on the discharge date; however, the Hospital does not charge interest on past-due accounts. The Hospital charges off patient accounts receivable if management considers the collection of the outstanding balances to be doubtful.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Records of charges foregone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided (see footnote #11).

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Hospital is exempt from federal and state income taxation as a political subdivision of the state of Louisiana and, accordingly, the accompanying financial statements do not include any provision for income taxes.

Professional Liability Claims

The provision for estimated malpractice claims includes estimates of the ultimate cost for both reported claims and claims incurred but not reported. The Hospital has not experienced material losses from professional liability claims in the past.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

The Hospital's employees earn vacation days at varying rates depending on years of service. Generally, on the employee's anniversary date, any unused days greater than one year accrual would be paid out to the employee. Employees also earn sick leave benefits; however, sick leave does not vest and is not accrued.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

Notes to Basic Financial Statements

2. Designated Cash and Investments

The composition of designated cash and investments at March 31, 2013 and 2012, is set forth below:

	March 31, 2013		
	Cash and Cash Equivalents	Fixed Income	Total
	<i>(in thousands)</i>		
Board-designated	\$ 7,363	\$ 151,405	\$ 158,768
2010 bond issue:			
Interest expense fund	895	-	895
Principal fund	1,700	-	1,700
Total 2010 bond issue	2,595	-	2,595
2003 supplemental bond issue:			
Interest expense fund	428	-	428
Principal fund	95	-	95
Total 2003 supplemental bond issue	523	-	523
Total designated cash and investments	\$ 10,481	\$ 151,405	\$ 161,886

	March 31, 2012		
	Cash and Cash Equivalents	Fixed Income	Total
	<i>(in thousands)</i>		
Board-designated	\$ 8,297	\$ 145,835	\$ 154,132
2010 bond issue:			
Interest expense fund	920	-	920
Principal fund	1,650	-	1,650
Total 2010 bond issue	2,570	-	2,570
2003 supplemental bond issue:			
Interest expense fund	430	-	430
Principal fund	90	-	90
Total 2003 supplemental bond issue	520	-	520
Total designated cash and investments	\$ 11,387	\$ 145,835	\$ 157,222

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Notes to Basic Financial Statements

2. Designated Cash and Investments (continued)

Louisiana state statutes authorize the Hospital to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions. Due to these restrictions, the Hospital does not have a formal policy that limits the types of investments. During the years ended March 31, 2013 and 2012, the Hospital invested primarily in securities issued by the U.S. Treasury and other federal agencies. The Hospital has a \$15,000,000 named wind storm deductible on its insurance policy and has designated a portion of these funds to cover any outlay that may result from such an event.

Credit Risk – Investments

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The standardized ratings systems are a good tool with which to assess credit risk on debt obligations. The following table can be used in determining the level of exposure to credit risk as of March 31, 2013 and 2012:

<u>Moody Rating</u>	<u>Fair Value at March 31, 2013</u>	<u>Fair Value at March 31, 2012</u>
Aaa	\$ 151,405,000	\$ 145,835,000

Obligations of the U.S. government or explicitly guaranteed by the U.S. government are not considered to have credit risk. The investments qualifying for this classification total \$77,966,000 in fair value. The Hospital had investments in obligations that are implicitly guaranteed by the U.S. government and therefore have credit risk exposure, with a fair value of \$73,439,000 at March 31, 2013.

Concentration of Credit Risk

Per GASB 40, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. The Hospital has investments in Federal Farm Credit Banks, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association that represented 6.2%, 7.3%, 10.3%, and 16.8%, respectively, of the total investments at March 31, 2013.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Notes to Basic Financial Statements

2. Designated Cash and Investments (continued)

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. As of March 31, 2013, approximately \$10,169,000 of the Hospital's bank balance of \$11,669,000 was exposed to credit risk as uninsured and collateralized with securities held by the pledging financial institution.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of March 31, 2013, the Hospital was not exposed to custodial credit risk for its investments as all were registered in the name of the Hospital.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

Notes to Basic Financial Statements

2. Designated Cash and Investments (continued)

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the Hospital's segmented time distribution investment maturities in years by investment type as of March 31, 2013.

Investment Type	Fair Value	Years		
		<1	1-5	>5
(In Thousands)				
U.S. Treasuries	\$ 44,111	\$ 4,935	\$ 20,941	\$ 18,235
Federal National Mortgage Association	26,671	605	8,540	17,526
Federal Home Loan Bank	11,539	6,108	4,811	620
Federal Home Loan Mortgage Corporation	16,342	-	4,811	11,531
Federal Farm Credit Banks	9,813	2,555	4,187	3,071
Government National Mortgage Association	18,716	-	211	18,505
Small Business Association	12,492	92	1,574	10,826
U.S. Department of Housing and Urban Development	2,647	-	-	2,647
Securities guaranteed by the U.S. Government	9,074	125	2,524	6,425
	\$ 151,405	\$ 14,420	\$ 47,599	\$ 89,386

The table below summarizes the Hospital's segmented time distribution investment maturities in years by investment type as of March 31, 2012.

Investment Type	Fair Value	Years		
		<1	1-5	>5
(In Thousands)				
U.S. Treasuries	\$ 39,577	\$ 9,798	\$ 13,617	\$ 16,162
Federal National Mortgage Association	30,364	736	4,785	24,843
Federal Home Loan Bank	11,262	1,500	7,778	1,984
Federal Home Loan Mortgage Corporation	19,754	1,000	4,361	14,393
Federal Farm Credit Banks	8,194	-	7,447	747
Government National Mortgage Association	14,879	-	251	14,628
Small Business Association	11,954	-	1,808	10,146
U.S. Department of Housing and Urban Development	1,875	-	-	1,875
Securities guaranteed by the U.S. Government	7,976	-	2,470	5,506
	\$ 145,835	\$ 13,034	\$ 42,517	\$ 90,284

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Notes to Basic Financial Statements

3. Capital Assets

The Hospital's investment in capital assets consisted of the following as of March 31, 2013:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
	<i>(in thousands)</i>			
Land and land improvements	\$ 22,086	\$ 5	\$ -	\$ 22,091
Buildings	166,164	5,854	-	172,018
Equipment	156,842	6,220	(396)	162,666
Construction-in-progress	6,544	12,503	(8,194)	10,853
	<u>351,636</u>	<u>24,582</u>	<u>(8,590)</u>	<u>367,628</u>
Accumulated Depreciation				
Land improvements	5,248	362	-	5,610
Buildings	72,282	6,048	-	78,330
Equipment	123,669	10,580	(396)	133,853
	<u>201,199</u>	<u>16,990</u>	<u>(396)</u>	<u>217,793</u>
Capital assets	<u>\$150,437</u>	<u>\$7,592</u>	<u>(\$8,194)</u>	<u>\$149,835</u>

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Notes to Basic Financial Statements

3. Capital Assets (continued)

The Hospital's investment in capital assets consisted of the following as of March 31, 2012:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
	<i>(in thousands)</i>			
Land and land improvements	\$22,063	\$23	\$ -	\$ 22,086
Buildings	141,301	24,863	-	166,164
Equipment	146,180	10,702	(40)	156,842
Construction-in-progress	19,679	18,195	(31,330)	6,544
	<u>329,223</u>	<u>53,783</u>	<u>(31,370)</u>	<u>351,636</u>
Accumulated Depreciation				
Land improvements	4,880	368	-	5,248
Buildings	66,707	5,575	-	72,282
Equipment	113,553	10,141	(25)	123,669
	<u>185,140</u>	<u>16,084</u>	<u>(25)</u>	<u>201,199</u>
Capital assets	<u>\$144,083</u>	<u>\$37,699</u>	<u>(\$31,345)</u>	<u>\$150,437</u>

4. Debt

The following table summarizes the Hospital's outstanding debt:

	March 31	
	<u>2013</u>	<u>2012</u>
	<i>(in thousands)</i>	
Hospital Revenue Bonds, Series 2010, 3.0% to 5.0%	\$ 38,105	\$ 39,755
Hospital Revenue Bonds, Series 2003, 2.0% to 5.25%	16,385	16,475
	<u>54,490</u>	<u>56,230</u>
Less: amounts due within one year	1,795	1,740
Long-term portion of debt	<u>\$ 52,695</u>	<u>\$ 54,490</u>

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Notes to Basic Financial Statements

4. Debt (continued)

The 2010 bonds are serial bonds with semiannual interest payments due April 1 and October 1 of each year. The bonds mature in varying installments through 2028 and are subject to mandatory redemption through a sinking fund that requires the Hospital to fund debt service of approximately \$4,500,000 annually through the year 2028. The bonds are secured by a pledge and assignment of all revenue, after operating expenses, derived by the Hospital. The bonds are also secured by a mortgage and security agreement of the land on which the Hospital is located. Under the terms of the bond agreement, certain maturities of principal due on the bonds, as well as interest accruing on the bonds, must be funded to the trustee prior to the actual payment to the bondholders.

The 2003 bonds are serial bonds with semiannual interest payments due April 1 and October 1 of each year. The bonds mature in varying installments through 2033 and are subject to extraordinary special redemption through a sinking fund that requires the Hospital to fund debt service of approximately \$5,000,000 annually, beginning in 2030 through the year 2033. The bonds are secured by a pledge and assignment of all revenue, after operating expenses, derived by the Hospital. The bonds are also secured by a mortgage and security agreement of the land on which the Hospital is located. Under the terms of the bond agreement, certain maturities of principal due on the bonds, as well as interest accruing on the bonds, must be funded to the trustee prior to the actual payment to the bondholders.

The Hospital was in compliance with all covenants of its outstanding bond issues at March 31, 2013 and 2012.

On April 1, 2013, the Hospital completed the issuance of \$16,815,000 of Series 2013 Revenue Refunding Bonds to refund the Series 2003 Bonds and pay for the cost of issuing the bonds. See Note 10 for the new scheduled maturities of the long-term debt.

5. Third-Party Payor Arrangements

The Hospital receives payment from federal and state agencies (under Medicare and Medicaid Programs) for services rendered to program beneficiaries. A summary of the percentage of the Hospital's net patient revenue related to patients participating in the Medicare and Medicaid Programs is as follows:

	2013	2012
Medicare	43.09%	39.30%
Medicaid	5.26%	2.47%

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

Notes to Basic Financial Statements

5. Third-Party Payor Arrangements (continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Regulations in effect require annual retroactive settlements for costs reimbursed under these federal programs based upon cost reports filed by the Hospital. The difference between the estimate of these settlements and the final determination of amounts earned under cost reimbursement and prospective payment activities is subject to review by the appropriate governmental authority or its agents. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments resulted in an increase to net patient service revenue of \$651,000 in 2013 and \$1,511,000 in 2012. Estimated settlements through March 31, 2010, for the Medicare program and through March 31, 2008 for the Medicaid program have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates required. The settlement of these cost reports provides the Hospital with updated information that serves as the basis to adjust estimated settlement amounts. Management believes that adequate provision has been made for adjustments that may result from the final determination of amounts earned under these programs.

6. Net Patient Service Revenue

Net patient service revenue is comprised of the following:

	Years Ended March 31	
	2013	2012
	<i>(in thousands)</i>	
Total gross patient service charges, excluding charity care	\$553,113	\$558,137
Contractual and other allowances:		
Medicare	226,301	220,016
Medicaid	60,261	70,618
Managed care organizations	77,048	80,256
Other	10,499	9,278
Provisions for bad debts	12,714	12,979
Total contractual and other allowances	386,823	393,147
Net patient services revenue	\$ 166,290	\$ 164,990

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Notes to Basic Financial Statements

7. Retirement Plan

The Hospital has a contributory money accumulation pension plan covering all of its full-time employees. Plan participants may contribute to the pension plan. The Hospital contributes amounts from 4% to 5% of each participant's salary to the plan depending upon length of service. Pension expense was approximately \$1,975,000 in 2013 and 2,079,000 in 2012.

The Hospital has deferred compensation agreements with a former key employee. The deferred compensation agreements were funded by life insurance policies. The Hospital expects these policies to cover all future payments under the deferred compensation agreements.

8. Commitments and Contingencies

The Hospital participates in the State of Louisiana Patients' Compensation Fund (the Fund) for professional liability coverage. As a participant, the Hospital receives professional liability coverage on a claims-occurrence basis for claims up to the \$500,000 statutory limitation per occurrence. However, the Hospital is self-insured with respect to the first \$100,000 of each claim.

The Hospital is self-insured for workers' compensation up to \$400,000 per claim and for employee health insurance up to \$225,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

The Hospital purchased commercial insurance that provides coverage for professional liability, workers' compensation, and employee health claims in excess of the self-insured limits. Changes in the Hospital's aggregate claims liability for medical malpractice, workers' compensation, and employee health insurance in fiscal years 2013 and 2012 were as follows (in thousands):

Year Ended March 31	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2013	\$3,168	9,670	9,388	\$3,450
2012	\$3,980	7,154	7,966	\$3,168

Insurance coverage for other loss and liability exposures is maintained at levels considered appropriate by management. The Hospital has been named as a defendant in various legal actions arising from normal business activities, in which damages in various amounts are claimed. The amount of ultimate liability, if any, with respect to such matters cannot be determined, but management believes that any such liability would not have a material effect on the Hospital's financial position.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

Notes to Basic Financial Statements

8. Commitments and Contingencies (continued)

The Hospital has signed several contracts with major contractors for various construction projects. In addition, a contract is still active with a software vendor to purchase upgrades and additional modules for the Hospital's business and clinical information systems. The detailed terms of these agreements are proprietary and they will result in an estimated cost of \$7,245,000.

9. Leases

The Hospital leases office space and clinical facilities, generally to members of its medical staff, under operating leases whose terms range from one to five years. Assets held for lease at March 31, 2013, consisted of land, buildings and improvements including fixed equipment with total costs of \$34,113,000. Accumulated depreciation of the leased assets totaled \$17,059,000 at March 31, 2013.

The future minimum lease payments to be received from these leases during the next five years are as follows:

Year ending <u>March 31st</u>	Amount <u>(in thousands)</u>
2014	1,736
2015	1,600
2016	1,261
2017	1,106
2018	295

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)

Notes to Basic Financial Statements

10. Subsequent Events

Bond refinancing

On April 1, 2013, the Hospital completed the issuance of \$16,815,000 of Series 2013 Revenue Refunding Bonds to refund the Series 2003 Bonds and pay for the cost of issuing the bonds. The 2013 bonds are serial bonds with semiannual interest payments due April 1 and October 1 of each year. The bonds mature in varying installments through 2033 and are subject to mandatory redemption through a sinking fund beginning in 2026. The bonds are secured by a pledge and assignment of all revenue, after operating expenses, derived by the Hospital. The bonds are also secured by a mortgage and security agreement of the land on which the Hospital is located. Under the terms of the bond agreement, certain maturities of principal due on the bonds, as well as interest accruing on the bonds, must be funded to the trustee prior to actual payment to the bondholders.

Sources and uses of the refunding issue are summarized as follows:

Sources of funds:

Par amount of bonds	\$ 16,815,000
Reoffering discount	(69,199)
Prior issue debt service funds	<u>522,655</u>
	<u>\$ 17,268,456</u>

Uses of funds:

Deposit to current refunding	\$ 16,290,000
Call Fee	162,900
Bond Payments due April 1	522,656
Costs of issuance	166,788
Underwriters Discount	<u>126,112</u>
	<u>\$ 17,268,456</u>

Economic Gain on Refunding:

Gross present value savings	<u>\$ 2,137,000</u>
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The Hospital adopted GASB No. 65 *Items Previously Reported as Assets and Liabilities* in 2014 and experienced a write off of approximately \$1,078,000 in the write off of bond issuance costs from prior bond issues that were not fully amortized at April 1, 2013

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Notes to Basic Financial Statements

10. Subsequent Events (continued)

The new scheduled maturities of the long-term debt as of April 1, 2013 are as follows (in thousands):

Year ending March 31	Principal	Interest
2014	\$1,700	\$2,079
2015	1,925	2,330
2016	2,000	2,253
2017	2,085	2,173
2018	2,165	2,090
2019 – 2023	12,025	8,845
2024 – 2028	16,190	5,570
2029 – 2033	14,800	1,742
2034	2,030	41
Total	<u>\$ 54,920</u>	<u>\$ 27,123</u>

Agreements relating to Chabert Medical Center

Subsequent to year end, Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana became the sole member of Southern Regional Medical Corporation (SRMC). SRMC entered into a Cooperative Endeavor Agreement (CEA) with the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College ("LSU"), the Louisiana Division of Administration ("DOA") and the State of Louisiana through the Division of Administration (the "State" and the Louisiana Department of Health & Hospitals) ("DHH") to which Hospital will assist SRMC in ensuring the availability of hospital services to low-income and indigent patients in South Central Louisiana. SRMC has entered in an agreement with LSU to take possession, use, and occupancy of Leonard J. Chabert Medical Center ("Chabert") and assume responsibility for its operations. SRMC entered into a management agreement with Chabert Management LLC ("Manager") to provide management, staff and other assistance to SRMC to operate Chabert. The CEA is for an initial term of five years and will automatically renew for an additional five year term unless terminated by either party. The financial impact of this agreement should be minimal to the Hospital.

**Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
(d/b/a Terrebonne General Medical Center)**

Notes to Basic Financial Statements

11. Community Benefits (Unaudited).

The Hospital is an active and caring member of the community. Its mission of providing and improving medical care in the region as well as its participation in community activities is a long standing tradition of service provided to benefit the broader community.

The Hospital has served the community during the years ended March 31, 2013 and 2012, as follows:

	2013	2012
	(in thousands)	
Care for the indigent:		
Traditional charity care (in charges)	\$2,811	\$2,152
Self Pay discounts (in charges)	4,529	4,260
Unreimbursed government program costs:		
Unpaid costs of State programs	10,280	6,086
Unpaid costs of Federally funded programs	4,169	6,870
Benefits for Community and Region:		
Community Health Services	351	493
Community Building Activities	241	189
Community Benefit Operations	376	251
Health Professions Education	110	175
Subsidized Health Services	645	884
Financial Contributions	436	459
Research	12	51
Costs and Services directly provided to the Community	<u>2,171</u>	<u>2,502</u>
Total quantifiable Community Benefits	<u><u>\$23,960</u></u>	<u><u>\$21,870</u></u>

The amount reported as care for the indigent represents billings for services provided based on the Hospital's charge rates to persons who cannot afford health care because of unavailable resources or who are uninsured. Benefits for the broader community include the unpaid cost of treating Medicare and Medicaid beneficiaries in excess of government payments and services provided to other needy populations that may not qualify as indigent but that require special services and support. Examples include the cost of health promotion and education, costs in providing access to services, and health clinics and screenings, all of which benefit the broader community.

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH,
STATE OF LOUISIANA
(d/b/a TERREBONNE GENERAL MEDICAL CENTER)

REPORT ON COMPLIANCE AND INTERNAL CONTROL

MARCH 31, 2013

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Commissioners
Hospital Service District No. 1 of Terrebonne Parish,
State of Louisiana
(d/b/a Terrebonne General Medical Center)

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (d/b/a Terrebonne General Medical Center) (the Hospital), as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated August 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Natterville

Baton Rouge, Louisiana
August 27, 2013